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EGYPT

Foreign Minister Fahmi yesterday informed UN Secretary General Waldheim that Egypt cannot now agree to renew the UN mandate, which expires on July 24. He argued that Israel is using the presence of UN forces in the Sinai to perpetuate its occupation of Egyptian territory.

Fahmi clearly left room, however—both in his carefully worded and deliberately vague letter to Waldheim and in later remarks at a Cairo press conference—for the possibility that real progress toward a Sinai disengagement agreement before the expiration date might alter Egypt's position.

He said that Egypt is not calling for the removal of the UN forces and seemed to imply that the Egyptians would not necessarily object if the UN Security Council proceeded to renew the mandate without Egypt's express consent.

In justifying Egypt's case for withholding approval at this time, Fahmi argued that all Security Council resolutions establishing and extending the UN mandate had envisioned the UN force as a factor assisting in the search for peace. By Fahmi's argumentation, however, Israel in order to stall on negotiations has exploited the quiet brought about by the UN troops.

Leaving Egypt some room for maneuver on its decision, Fahmi declared that "with no further steps taken toward peace" and "in these circumstances," Egypt believes an extension of the mandate would defeat the purpose for which the force was established. He seemed to be saying that Israel and the US still have time in which to change "circumstances" and alter Egypt's decision. Fahmi said in his press conference that Egypt still welcomes US efforts to mediate a disengagement agreement.

In unprepared remarks at the press conference, Fahmi also laid on the UN much of the responsibility for pressuring Israel. Without specifically advocating expulsion of Israel from the UN, he noted that the General Assembly must decide whether Israel is to remain a member.

The timing of the Egyptian announcement is clearly designed to signal the limits of Egypt's patience and to put more steam into the negotiating process. Egyptian media have shown obvious chagrin at Israeli Prime Minister Rabin's statement last weekend that an interim agreement could take weeks or even months to negotiate.

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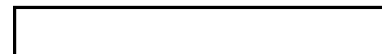
By declaring its desire for continued negotiations and its passive willingness to accept the continued presence of UN forces in the Sinai, but at the same time withholding its formal consent to this presence, Egypt achieves a dual purpose. It avoids directly provoking a breakdown in negotiations and a rise in military tensions, but it also serves a warning, disclaims responsibility for the continued presence of the buffer force, and thus avoids some of the stigma that would accompany an eventual resort to military action if it should come to believe that negotiations are leading nowhere.

Initial Israeli reaction has been cautious. Government officials in commenting to the press, reportedly confined themselves to reiterating Tel Aviv's position—that it will not be pressured into an agreement with Egypt under the threat of deadlines and that it recognizes no connection between dates such as that for the expiration of the UN mandate and the ongoing indirect negotiations with Egypt.

Tel Aviv appears to have considered the possibility of the Egyptian move and its response beforehand, despite press reports that it was caught by surprise. Prior to the Egyptian announcement, for instance, Jerusalem radio's international service broadcast a report claiming that Israeli "government officials" would regard the expiration of the UN mandate as a "technical violation" of the disengagement agreement, not significant in itself. Nevertheless, in an apparent effort to force a quick decision, Tel Aviv reportedly has asked the UN Security Council to extend the UN mandate for six more months.



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MIDDLE EAST

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[REDACTED] in the wake of the breakdown of the US-mediated Egyptian-Israeli negotiations, there was a substantial chance of war at any time and that the odds favored a renewal of hostilities by early summer if no progress had been made in negotiations.

Subsequent developments have led us to revise our judgment of the imminence of war, but we are still pessimistic about the slightly longer term prospects for avoiding a resumption of hostilities. We do not address prospects for the current negotiations between Egypt and Israel for an interim agreement, but rather assess the likely consequences in the event that they are unsuccessful or, if successful, are not followed by promising negotiations on the Golan Heights.

We now believe that there is a strong chance of hostilities around the end of the year unless an Egyptian-Israeli interim agreement can be concluded and promising diplomatic activity concerning the Golan front is at least under way.

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[REDACTED] notes between the failure of negotiations and the resumption of hostilities the estimate does not assess the reverse possibility—i.e., negotiations which return control of key passes in the Sinai to the Arabs might ultimately encourage the latter to resume hostilities from their new positions of vantage.

Convocation of the Geneva conference could alter this judgment, but the problems associated with this are no closer to resolution.

President Sadat is likely to give the US only a month or two to negotiate an interim agreement in the Sinai. He will not alter his refusal to renounce a formal state of belligerency or his demand that Israel withdraw completely from the Sinai passes, and he will be looking to the US to bring Israel within negotiating range.

If Sadat becomes convinced that the US cannot—or will not—move Israel, he will very probably turn to military action within a matter of months. His purpose would be to force Israel to realize the need for a settlement on the basis of the 1967 boundaries and to bring the US—especially the Congress and the public—to an understanding that its own political and economic interests require such a settlement.

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Throughout the period of the US policy reassessment, most Israelis have maintained a basic confidence in the correctness of their negotiating position, and they have faith in their ability both to ride out most US pressures and to cope with another war provoked by continued adherence to this position.

Unless the contrary can be proved, Israel will continue to believe that official US pressures can be short-circuited by direct appeal to US Congressional and popular support.

The situation in the Sinai is directly linked to the Golan front. We believe that Sadat will insist more strongly this time that a Sinai agreement be tied to an Israeli commitment to negotiate seriously with Syria. If he does not, or the Golan negotiations founder, there is a high probability that Syria and the Palestinians will deliberately raise military tensions in the hope of undermining the Egyptian agreement and drawing the attention of the great powers.

War could well result, and it is doubtful Sadat could stay out of the conflict very long. In any event, given Israel's reluctance to consider major concessions on Golan, the odds greatly favor Syria's patience running out.

Nothing has occurred since late March to alter our judgment that the Arabs will not, short of a new Arab-Israeli war, actually use oil or their financial power as political weapons to force a peace settlement. They will, however, play on Western fears of an embargo and of their financial power.

The Saudis continue to be the dominant factor in any Arab decision to employ the oil weapon. If war breaks out and the US resupplies the Israelis, we have little doubt that the Saudis will embargo the US and cut back oil production significantly.

Soviet behavior [] reflects the long-standing preference for a no war/no peace situation, tempered by a recognition of the dangers to Soviet interests of another war and of the limitations on Moscow's diplomatic leverage.

Moscow will be alert to exploit opportunities if US diplomacy falters; it would render support to any Arab turn toward a military approach and, in the process, seek to use its increased leverage to get Sadat replaced. Should there be movement toward a negotiated settlement, the Soviets would like to have some credit for it and to achieve through it a legitimized presence in the region.

[] believes this estimate fails to consider alternative perceptions in which the Soviets might view a resumption of limited war in the Middle East as also serving their interests. []

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ANGOLA

The National Front for the Liberation of Angola has apparently been obliged to withdraw its forces from Luanda after almost a week of heavy fighting in Angola's developing civil war. The Front's chief representative in the transitional government, Johnny Eduardo Pinnock, has taken refuge in neighboring Zaire. He announced yesterday that he has resigned from the government, effectively destroying the six-month-old transitional government.

Pinnock declared he would return to Angola to fight the Popular Movement, which, he said, is now controlled by "extremists" who have taken over from Agostinho Neto.

Pinnock may hope that the threat of all-out civil war conveyed in his resignation will provoke the Portuguese into imposing a cease-fire through force of arms. The National Front probably believes its only chance for survival is a Portuguese-imposed truce that would stick until a national election can be held.

The Front's withdrawal militarily from Luanda apparently has produced a lull in the fighting. Portuguese officials say, however, that 5,000 Front troops are advancing on the capital from northern Angola. The route will take them through territory controlled by the Popular Movement.

Portuguese Foreign Minister Antunes, now back in Lisbon after a fruitless effort to arrange a cease-fire early this week, has informed US Secretary General Waldheim that Lisbon may have to take "emergency measures" to restore order.

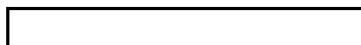
The press in Lisbon is reporting that Portugal is considering sending more troops to Angola. Some 24,000 Portuguese troops are there now, most of them in and around Luanda. They have not intervened in the recent fighting. We think it unlikely that Lisbon could impose order through force of arms even if it wanted to.



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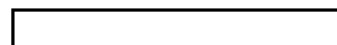
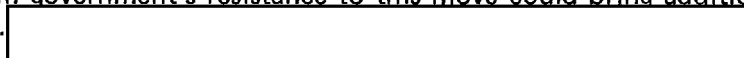
AUSTRALIA

Prime Minister Whitlam scored a qualified victory on Monday when the Labor Party caucus supported his firing of former deputy prime minister Cairns—although there was considerable criticism by the Laborites of Whitlam's tendency to act without consulting the caucus.

Whitlam's satisfaction was tempered, however, by the caucus' selection of Overseas Trade Minister Frank Crean to replace Cairns as deputy prime minister. Although Crean, like Whitlam, is a party moderate, relations between the two were soured when Whitlam fired Crean as federal treasurer last November. The move was widely criticized in Australia as an attempt by the Prime Minister to make Crean the scapegoat for the government's ineffective economic policies.

Although Whitlam has survived the party crisis, he still faces intense parliamentary questioning over the circumstances of Cairns' dismissal. The opposition Liberal-Country coalition is pressing for creation of a royal commission to look into allegations that Cairns or his associates stood to make huge profits from foreign loan deals and that they had misrepresented private ventures as government business.

The opposition-controlled Senate has also called for testimony from public service officials who might be able to shed some light on the loans controversy. The Whitlam government's resistance to this move could bring additional trouble in the Senate.



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EC

The continuing economic recession and its impact on Western Europe will dominate the discussions of the nine EC heads of government when they meet in Brussels today. No major new initiatives are in prospect during the two-day meeting.

Given the varying degrees of recession and inflation affecting EC members, uniform remedies are virtually ruled out. The leaders may, however, agree to call on the US to initiate additional measures to stimulate the US economy.

President Giscard, having requested that the agenda include international monetary problems, may again warn against the threat of "uncontrolled floating of the dollar" and urge a fixed relationship between the community currencies and the dollar. He may also press for EC acceptance of the French proposal calling for a monetary conference in October that would be attended by the US, West Germany, the UK, France, Japan, and a representative of the EC as a whole—a device to include Italy, now the EC chairman. Rome has previously complained of exclusion from "Big Five" meetings.

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With the British referendum on EC membership a success, the nine leaders will resume discussions on the further development of the community. They will probably hear an interim report from Belgian Prime Minister Tindemans, who is charged with preparing by the end of the year a report on the prospects for European union. Giscard and Schmidt may engage in a candid discussion of this subject when they meet in Bonn late this month.

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The form and amount of prospective community financial aid to Portugal also is on the Brussels agenda. The EC has appeared ready to offer a substantial amount of aid—reportedly around a half-billion dollars—conditioned upon the development of democratic institutions in Lisbon. The political changes last week have caused some members, notably France and the UK, to have second thoughts, and the Nine probably will not announce approval of a specific amount. The Nine will also have to decide whether to go ahead with a scheduled meeting on July 22 between the EC Council and Portuguese Foreign Minister Antunes.

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The leaders will also try to develop a common position on relations with the less developed countries, particularly with respect to raw materials, in the context of this fall's special session of the UN General Assembly. Although difficult of achievement, the Nine would like to assure a "European identity" in the matter of policy toward the developing nations, particularly since they have been unable to maintain a united front in international energy matters.

Ongoing trade negotiations with certain Arab states and the EC-Arab dialogue are proceeding on schedule, and the European leaders are expected to do no more than briefly review progress. The US request for emergency financial assistance to Egypt may also be considered. The leaders are also expected to discuss the upcoming CSCE summit, tentatively set for July 30 in Helsinki.

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OAS

Most of the OAS delegates assembling today in Costa Rica hope to go beyond the stated purpose of the conference, which was called to finish the long-delayed process of agreeing on amendments to the Inter-American Treaty of Reciprocal Assistance.

One of these amendments would alter the requirements for lifting sanctions from a two-thirds to a simple majority—a change expected to have unanimous support. The need for this change has been dramatized by repeated abortive efforts to rid the OAS of the Cuban sanctions, which are honored largely in the breach.

Anxious to free inter-American affairs from the Cuban albatross, the majority of OAS members are sympathetic to the idea, once the amendment process is out of the way, of some immediate action on the Cuban sanctions issue. Amendments adopted at San Jose under the regular agenda would not become effective until ratification, a process that might take two years or more.

Several of the delegates will come prepared with various "freedom of action" resolutions aimed at making relations with Cuba a bilateral affair rather than a matter governed by sanctions imposed under the Rio Treaty many years ago. There is general agreement that whatever device is employed, the juridical need to have it approved by two thirds will be in effect. The 12 that voted to lift the Cuba sanctions last November at Quito will probably hold fast. Only two additional votes will be required. Countries favoring normalization are counting on the prospect that some of the small countries, such as Haiti and Nicaragua, which normally follow the US lead will take their signal from Washington's declared intent to find a positive solution to the Cuban issue at San Jose.

Wide interest in finding relief from this contentious issue makes for a good chance that some formulation will be found to attract the needed votes. But the rapidly anti-Castro governments—Chile, Uruguay, and Paraguay—hope to continue their success in blocking the move. They plan to resist all efforts to add the Cuba problem to the conference business.

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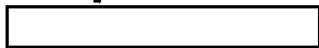
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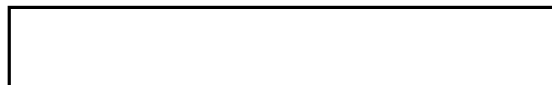
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